

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 853 - Tuition Tax Credit (LSB 2637 HV)

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Fiscal Note Version – New

Requested by Representative Carmine Boal

Description

House File 853 creates an income tax credit for taxpayers donating to qualified school tuition organizations. The qualified school tuition organization must allocate at least 90.0% of its annual revenue for educational scholarships or tuition grants to children attending a qualified school of their parents' choice. A qualified school is defined as:

- A public or private nonprofit preschool in Iowa.
- A nonpublic elementary or secondary school in Iowa.

The total amount of tax credits issued in one year is limited to \$7.0 million for elementary/secondary schools and \$3.0 million for preschools. If the credit applications for one portion are not sufficient to utilize the entire amount, the unused portion may be utilized by the other portion of the program. If applications for the tax credits exceed the two caps, the Department of Revenue shall prorate the credit.

A taxpayer's tax credit is limited to 65.0% of the amount contributed. The maximum tax credit is further limited to an annual maximum of \$5,000 for married filers and \$2,500 for single/separate filers.

Tax credits earned by a taxpayer are not refundable, but may be carried forward up to five tax years. The act is effective for tax years beginning on or after January 1, 2006.

Fiscal Impact

The fiscal impact of the school tuition organization tax credit created in HF 853 will be a maximum net State General Fund revenue reduction of \$10.0 million per year, beginning FY 2007.

Tax credits that reduce the income tax liability of Iowans in areas of the State with a local option school infrastructure surtax also reduce the yield of that surtax. Statewide, the surtax raises approximately 3.0% of the net amount raised by the State income tax. Therefore, the new tax credit will reduce surtax revenue to public schools by a maximum of \$300,000 per year.

The Bill does not require any portion of the contributions to be used for scholarships to students currently attending (or who will attend) public schools in Iowa. However, the availability of scholarships will make private school more affordable, and this could increase private school enrollment and decrease the enrollment of public schools.

We are not able to determine the effect on enrollment at the public schools. Reduced public school enrollment reduces the State Foundation Aid appropriation from the State General Fund by approximately \$4,500 per student.

Sources

Legislative Services Agency
Department of Education Annual Condition of Education Report

/s/ Holly M. Lyons

April 19, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
